Unitil

June 10, 2004

BY OVERNIGHT MAIL

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110

Re: NSTAR Electric, D.T.E. 03-121 – Settlement Agreement

Dear Secretary Cottrell:

Pursuant to the schedule established by the Hearing Examiner in his *Ruling on Ruling Revising Briefing Schedule* (June 2, 2004) and *Memorandum* (June 7, 2004) in this proceeding, Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil") submits for filing its Comments on the proposed Settlement Agreement ("Settlement") submitted by Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company d/b/a NSTAR Electric ("NSTAR" or "Companies"), the Division of Energy Resources (the "DOER"), Associated Industries of Massachusetts, Conservation Law Foundation, the Joint Supporters and the Solar Energy Business Association of New England (collectively the "Settling Parties"). Though not a signatory to the Settlement, Unitil is generally supportive of the proposed tariffs agreed to by the Settling Parties. Unitil reserves the right to respond to arguments raised by other parties' Comments in accordance with the schedule providing for submission of reply comments.

In its original tariff filings, the NSTAR electric distribution companies proposed to offer two services: Standby Delivery Service, designed to recover the costs of the distribution company "standing ready" to provide delivery of electric supply to replace the portion of the customer's internal electric load normally supplied by the customer's own generating units; and Supplemental Delivery Service, by which NSTAR would provide delivery of electricity supply to serve the portion of the customer's load not served by its internal generation. Optional generation service would be charged on a per kWh basis for any metered service under the Supplemental Service element of the rate, and served through

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the NSTAR's Standard Offer Service or Default Service offerings. See Exhibit NSTAR-HCL-1 at 20-21.

The Settlement's standby tariffs are consistent with this framework, though apply thresholds and exemptions from these rates much more liberally than originally proposed. Unitil believes, however, that the rates proposed appear to be generally consistent with the policy goals identified by the Department as a guide to the calculation of standby or backup service tariffs: to ensure that customers pay an appropriate share of distribution system costs; to provide an appropriate price signal to customers seeking to install DG; and to reflect the costs of providing the service to avoid shifting these costs to other customers. Order Opening Investigation into Distributed Generation, D.T.E. 02-38 at 2 (June 13, 2002). The general principle, that cost responsibility and cost allocation be based upon cost causation, has long been a fundamental objective of the Department. D.T.E. 02-24/25 at 250, citing to D.P.U. 96-50 (Phase I) at 133; D.P.U. 92-250 at 178; Western Massachusetts Electric Company D.P.U. 91-290 at 24 (1992).

The Settlement's tariff also retain certain key features which were part of NSTAR's original proposal, and which Unitil supports as the basis upon which such rates should be designed: existing rates are used as the starting point, and fixed costs are recovered through the use of a contract demand.

While the proposed standby tariffs in the Settlement appear to be consistent with the general principles by which such rates should be configured, the Department should not conclude as a result of this proceeding that the specific terms and conditions of these rates are applicable to Unitil and the other distribution utilities, as there are differences among the companies that should be recognized. The Settlement's tariffs have been reached as the result of a negotiated process, and the Settlement itself contains express terms noting that nothing therein should be deemed to be an admission by any party as to any contention or allegation, that the Settlement establishes no principles except those stated in the agreement, and that the result is a product of confidential negotiations. In particular, there may be portions of the Settlement that should not apply to another distribution company in situations where a single customer or several large customers make up a significant percentage of that company's load. Thus, any order in this proceeding adopting the Settlement should not bind any of the other distribution utilities to a particular outcome without examining those differences in a utility specific investigation. (See the testimony of WMECO witness Davis on this point. Ex. WM-EAD-1 at 2.)

The testimony of Unitil in this proceeding underscores the need to consider utility specific differences on a case-by-case basis. As David K. Foote, Senior Vice-President of Fitchburg Gas and Electric Light Company, testified, Unitil would not propose to offer the optional backup generation service component of standby service through its Standard Offer or Default Service. Tr. 593; Ex. UNITIL-DKF-1 at 2. Unitil submits that optional generation service for customers with self-generating facilities supplying more than 3 megawatts should be provided either by competitive retail suppliers, or if required to be provided in the form of Default Service pursuant to 220 CMR 11.04(c), such service should be established and solicited separately. Id.

Unitil's position regarding the offering of backup generation service is based on the fundamental principles of cost responsibility discussed above: the necessity of avoiding the shifting of costs from one group of customers to another. Mr. Foote explained that Unitil's large customers (who are eligible to receive Default Service) create significant volatility in the aggregate load levels of the Large Default Service group when they switch back and forth between Default Service and retail supplier service on as little as two business days notice. Exhibit UNITIL-DKF-1 at 3.[1]

If large customers were also able to source their backup generation needs through Default Service, there could be significant unannounced load variances as the customer generation went on and off line. The added volatility of their net loads on the Large Default Service would create an even greater impact, resulting in higher prices and reluctance among wholesale suppliers to even bid to supply the load requirements. "We do know from discussions with the bidders in our requests for proposals for default service that (customers coming on default service for a short period of time and then going back to third-party-supplier service) has very definitely impacted several companies' decision to not bid from time to time." Tr. 595. Unitil's concern is that such load variances are ultimately reflected in higher load volatility and higher prices for all Large Default Service customers.

The greater volatility in load variations is due to the nature of the differences between a generation-based customer and customer who is taking third-party supplier service. A customer on third-party supply will take default service from time to time, but is required to provide Unitil with advance electronic notification, so that there is sufficient

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[1] FG&E has two groups of customers for Default Service solicitations. The Small Default Service group includes rate classes RD-1, RD-2, GD-1. The Large Default Service group includes rate classes, GD-2, GD-3, GD-4, GD-5, and SD. Please note that the description of each of these rate classes has been provided by Unitil in response to record request RR-DTE-8.

time to notify Unitil's default service supplier that there will be a significant load change. Once such a customer returns to default service they typically remain for a month or more. Tr. 599.

A customer with some portion of its supply provided through self-generation, however, may not be able to provide any advance notice of the change in their load, and the operational problems which necessitated the change may be resolved in as little as an hour or two. Tr. 598.

In light of this volatility, Unitil believes that optional generation service for standby service customers should be provided by the retail market. Ex. UNITIL-DKF-1. However, 220 CMR 11.04(c) provides that Default Generation Service "*shall*" be available to any customer not receiving generation service from the retail market through a competitive supplier or through Standard Offer Service. Accordingly, Unitil proposes to address this concern in one of two alternative ways: First, a separate backup generation Default Service solicitation could be conducted for customers requiring more than 3MW of backup service, seeking bids to provide either fixed pricing or indexed pricing.

An indexed pricing approach might be easier to obtain since backup generation customers would pay a formula-based price largely based on their actual cost with little volume risk to the supplier. The indexed pricing could be based on Location Marginal Prices (LMPs) and include a capacity/LICAP component. Since the capacity obligations of any customer depends on the customer's consumption during the peak hour of the prior year, it is possible that the capacity obligation of backup generation service would be zero. Ex. UNITIL-DKF-1 at 4; Tr. 595.

The second alternative would be to structure Default Service alternatives in terms of different switching rules and procurement strategies, rather than rate class assignment. Ex. UNITIL-DKF-1 at 6. The procurement strategy for larger customers with retail supply or distributed generation options will look toward the short-term and be more reflective of market conditions, and would allow switching of suppliers on short notice. For customers with no retail or distributed generation options, or no interest to pursue such options, supply would be procured for longer periods and the switching rules would require longer notice both to leave and return to the service.

In conclusion, Unitil submits that the unrestricted ability of distributed generation customers with large loads to obtain generation supply through Unitil's Default Service may cause enough volatility in the supplier's load to either raise prices for default service for other customers, or result in a smaller pool of bidders willing to provide the service. Consistency with the rate design principle of not allowing the shifting of these costs to other customers would require that this generation service be provided either through third party suppliers, or through a separate Default Service solicitation. As this testimony demonstrates, the Department should not adopt an order in this proceeding which would bind Unitil to the provision of standby service with the same provisions as those proposed in the Settlement; rather, the Department should consider the unique circumstance of each distribution utility.

Sincerely,

Gary Epler

cc: William Stevens, Hearing Officer (8 copies)
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Service List